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**DISCOVERY MINES  
LIMITED**

**1975**

**ANNUAL REPORT**



# DISCOVERY MINES LIMITED

## OFFICERS

J. C. BYRNE  
*President and Managing Director*

H. EARL JOUDRIE  
*Vice-President*

D. R. McEWEN  
*Secretary-Treasurer*

## DIRECTORS

J. C. BYRNE, Toronto  
President and Managing Director, Rayrock Mines Limited,  
Managing Director, Avoca Mines Limited

C. M. EVANS, Calgary  
Senior Vice-President, Ashland Oil Canada Limited

E. S. HOLMGREN, Detroit  
Retired Mining Executive

H. EARL JOUDRIE, Toronto  
Chairman and Chief Executive Officer, Ashland Oil Canada Limited

G. T. SMITH, Toronto  
Vice-Chairman, United Siscoe Mines Limited and President,  
Camflo Mines Limited

W. J. WHELAN, Toronto  
Senior Vice-President, Ashland Oil Canada Limited

## MANAGEMENT

J. C. BYRNE  
*Managing Director*

R. J. KILGOUR  
*General Manager*

D. R. CROMBIE  
Vice-President — Mining

## EXECUTIVE ENGINEER

L. A. BEDNARZ, P.Eng.

## EXECUTIVE OFFICE

Suite 1011, 2200 Yonge Street, Toronto, Canada

## TRANSFER AGENTS AND REGISTRARS

CROWN TRUST COMPANY, Toronto

## BANKERS

ROYAL BANK OF CANADA, Bay and Temperance Branch, Toronto

## AUDITORS

COOPERS & LYBRAND, Toronto

## SOLICITORS

CAMPBELL, GODFREY & LEWTAS,  
Toronto

## ANNUAL MEETING

10:00 a.m., Monday, May 17, 1976  
Rosedale Room, Hotel Plaza II  
90 Bloor Street East, Toronto



# DISCOVERY MINES LIMITED

## Directors' Report to the Shareholders

On behalf of the Board of Directors, we present the Twenty-ninth Annual Report for the year ended December 31, 1975.

Discovery recorded a net loss of \$2,431,964 in 1975 compared with a net loss of \$478,853 in the previous year. Contributing to all but \$311,999 of the 1975 figure was an extraordinary writedown in shares and debentures of Avoca Mines Canada Limited in which company a 54 per cent ownership is held. Since the viability of Avoca Canada's wholly-owned Irish copper mine has been seriously eroded during the past eighteen months by a combination of depressed metal prices and escalating costs, Discovery has elected to write its investment down to \$1.00 as a conservative accounting measure. This is not intended to suggest an inevitable suspension of operations. Admittedly the future of Avoca Ireland is somewhat precarious, however the recent strength displayed by the copper price augers well for a return to profitability and the possibility that additional assistance to retire debt obligations may be forthcoming.

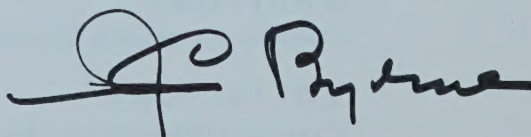
The most important investment remains the 22 per cent equity in Rayrock Mines Limited, an affiliated company, which has increased its exposure to the petroleum industry by the recent purchase of additional oil production in southwestern Ontario and gas reserves in Alberta. Because of nonrecurring write-offs occasioned for the most part by a flow through of Discovery's loss due to the equity accounting system of reporting, Rayrock also registered a net loss in the year just concluded.

Production plans for the Camlaren gold property near Yellowknife were postponed in the light of weakness in the bullion price and continuing inflationary pressures. The mine has been placed on a care and maintenance basis pending improved economics. A similar status applies to the 50 per cent owned Johnsby gold property under option to Cominco Ltd. since 1974. Located in the Northwest Territories these claims host a large tonnage of low grade reserves amenable in part to open pit extraction.

The past two years have been less than satisfactory for your Company and its subsidiaries due essentially to a general decline in gold and copper prices. We expect that 1976 will show some improvement.

It is with deep regret that we report the death during the past year of Mr. D. O. Mungovan, Q.C., a Director and Solicitor of the Company since 1957. His advice and counsel will be sorely missed. We are also saddened by the recent passing, in his 91st year, of Mr. J. J. Byrne who was a long time Director of your Company and its Chairman at the time of his retirement in 1969.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "J. J. Byrne", is written over a horizontal line.

President and Managing Director

Toronto, Ontario  
April 7, 1976



# Mining Operations and Interests

## **AVOCA MINES CANADA LIMITED**

Avoca Canada's wholly-owned Irish operation experienced another very difficult year characterized by depressed copper prices and rising costs. Continued production at Avoca Ireland is dependent on new financing, and negotiations have been in progress involving the Irish Government and other resource companies which may result in the availability of further funds to retire debt obligations. The net loss of Avoca Ireland in 1975 was £739,843 after provision for depreciation, amortization and interest charges.

The Company has proposed a deferral of the redemption date of the \$1,000,000 principal amount of Avoca Canada Income Debentures that are currently in default; it is expected that this matter will be resolved satisfactorily.

Copper production during the past year totalled 7.8 million pounds and pyrite concentrate output was 77,225 dry short tons. As part of an economic austerity program where mine development was drastically curtailed, average daily mill throughput at 1,600 short tons was approximately 40 per cent lower than in 1974. The underground mine provided 65 per cent of the mill feed and open pit sources the balance.

Reserves in the proven and probable category at West Avoca exceed 4 million tons with an average grade of 0.8 per cent copper after allowance for dilution. Of potential importance is a large, low grade base metal occurrence located in the East Avoca mineralized belt. cursory drill investigation has disclosed upwards of 40 million tons averaging 0.5 per cent copper with accompanying minor lead and zinc values. This deposit would be amenable to open pit extraction.

## **RAYROCK MINES LIMITED**

Oil and gas is now Rayrock's primary source of income since the 23 per cent owned Icon Sullivan Joint Venture mine, which contributed importantly to the Company's earnings for eight years, terminated operations in mid-1975 due to the exhaustion of ore reserves. Recent participation in a joint venture purchase of gas reserves in Alberta and the acquisition in January, 1975 of additional oil reserves in southwestern Ontario will provide a solid earnings base for Rayrock for many years. Total 1975 oil production from the three waterflood operations in Ontario was 158,824 barrels which returned an operating profit of \$650,000. The increased involvement in the petroleum industry entailed a 1975 investment of \$1,213,000 much of which qualified for bank financing.

Production plans for the 20 per cent owned Pinson gold property in Nevada were shelved pending improved economics structured on a gold price approaching \$175 whereunder the project would take on attractiveness. Open pit reserves of 1,747,000 tons averaging 0.15 ounces per ton represent a better than five year mine life at the proposed scale of operations.

Rayrock's main exploration thrust is directed to the search for uranium deposits and, in this regard, a partially explored prospect north of Yellowknife has been optioned, and the company will participate this summer in a regional airborne radiometric survey in the Northwest Territories.

Earnings in 1975 before exploration expenditures and taxes were \$728,771. Net consolidated loss after deduction of extraordinary items was \$1,211,645.

Working capital at year end was \$832,039 while investments in listed securities had a market value of \$2,451,000.



# **DISCOVERY MINES LIMITED**

## **CAMLAREN MINES LIMITED**

Weakness in the bullion price during the year and continuing inflation were the primary factors in the decision of Discovery Mines to postpone production plans for the Camlaren gold property located 60 air miles northeast of Yellowknife, Northwest Territories. Under existing economic conditions a minimum gold price of \$200 and some evidence of price stability are required before Discovery would be prepared to commit further capital expenditures.

In addition to the financing of a \$765,000 underground exploration and development program in 1974, Discovery spent a further \$350,000 in 1975 largely on supply purchases, plant site preparation, and preliminary engineering design. Supplies and used equipment were transported by winter road during March and April from Yellowknife and from three former producing gold mines. The inventory included diesel generators, building materials, fuel tanks, diesel fuel, and gravel for the tank battery pads and containment walls.

No additions have been made to the previously reported semi-proven ore reserves of 56,000 tons averaging 0.62 ounces gold per ton after allowance for dilution. Importantly, the Camlaren deposit is open to depth below the deepest horizon investigated at 1,000 feet. To protect its downward projection a group of five claims adjoining on the north was purchased last May by Discovery for the sum of \$4,000.

Discovery's interest in the Camlaren property is 66 $\frac{2}{3}$  per cent. In addition, a 67 per cent share equity in Camlaren Mines is held for a total direct and indirect interest of 89 per cent.

## **JOHNSBY MINES LIMITED**

No 1975 exploration was conducted by Cominco Ltd., on the optioned Johnsby gold prospect owned equally by Discovery and Hydra Explorations.

The Cominco-Johnsby option agreement dated April 1974, was amended on September 1975, granting Cominco a one year extension and the option of up to four additional yearly extensions within which extended time period further exploration expenditures, as defined in the original agreement, could be made to maintain the option in good standing. Each annual extension is to be accompanied by a payment to Johnsby of \$5,000. Whereas no less than \$500,000 was to have been spent by Cominco on or before December 31, 1975, if the option was to remain in force Cominco can now elect to defer such expenditure until 1980. Furthermore, if a total of \$3.0 million should be expended by December 31, 1984, Cominco will have earned a 60 per cent interest in the Johnsby property. Johnsby may then maintain its 40 per cent equity by providing only 20 percent of on-going finances.

During 1974, Cominco undertook a \$250,000 exploration program consisting of twenty holes drilled to investigate a 2,000 foot section of a gold-bearing quartz diorite dyke which has been traced on surface for a strike length of 20,000 feet. This work confirmed a tonnage potential in excess of 20 million tons to a depth of 1,000 feet and an average grade of 0.053 ounces gold per ton. Much of the deposit is amenable to open pit extraction.

During 1975, Johnsby on its own account investigated the merits of photometric sorting as a potential mechanical method of rejecting waste material from crushed run-of-mine ore so that an upgraded product could be delivered to a mill. Bench scale tests on Johnsby samples proved encouraging.

The gold property comprises 71 contiguous claims located approximately 125 air miles northwest of Yellowknife in the Northwest Territories. Considerable exploration was conducted in this region during the 1940's.

## **LaFORMA PROJECT**

Surface diamond drilling was conducted this past summer on the LaForma gold property located 40 miles west of Carmacks, Yukon Territory. The program was financed jointly by Rayrock



and Ashland Oil Canada under an option agreement, and was undertaken to investigate several geochemical anomalies indicated from a soil survey carried out during the previous year.

While individual drill hole assays were not overly exciting, the results were sufficiently encouraging to warrant further exploration. One area of interest is a porphyry type occurrence, complex in nature, and as yet inadequately defined. Low grade gold and silver values occur in association with sparsely disseminated sulphide mineralization. Two of the more significant intersections were 503 feet averaging 0.018 ounces gold and 0.08 ounces silver per ton, and 68 feet returning 0.067 ounces gold and 0.34 ounces silver per ton. On the evidence that considerable leaching has taken place future drill investigation would determine whether enriched zones are present.

Another site deserving of follow-up work is the apparent extension of the partially developed G-3 Zone which has been displaced by faulting.

Previous underground exploration and development of the G-3 deposit disclosed proven and probable reserves of 70,000 tons having an average recoverable grade of 0.44 ounces gold per ton. Six holes drilled beneath the bottom adit level returned good values indicating excellent depth potential.

Under the terms of the Discovery option the Rayrock-Ashland joint venture could earn a controlling interest in the La Forma property in the event \$1.0 million is spent by the end of 1978. To date exploration expenditures by the joint venture have been \$231,253.

#### **NORITA QUEBEC MINES LIMITED**

*Orchan*

Milling of Norita development ore commenced in January, 1976, with the ore being trucked to the nearby Orchan Mines concentrator. It will probably be several months before the scheduled daily production rate of 900 tons is attained by the new Matagami district mine.

Drill indicated reserves are 1,965,307 tons grading 6.4% zinc, 0.6% copper, and 0.9 ounces silver per ton including allowance for dilution. Based on the results of the deepest holes drilled from surface, the depth potential would appear promising.

Preproduction expenditures to December 31, 1975, have totalled approximately \$5.1 million of which \$1.9 million was for a used mining plant and underground equipment. The 1,680-foot production shaft was completed at mid-year.

Under the terms of the Orchan acquisition, Norita Quebec Mines will receive \$495,000 out of early production at the rate of 25 cents per ton milled and will also be entitled to 25 per cent of net profits from all ore extracted after recovery by Orchan of its preproduction expenditures.

Discovery's equity in Norita is 14 per cent. The other shareholders are Radiore Uranium Mines 54 per cent and Amagami Mines.

*Radiore Uranium Mines*

#### **GENERAL**

During 1975 Discovery and Radiore Uranium Mines, co-owners of a copper prospect adjoining Norita Quebec Mines, were notified that Noranda Exploration Company, to whom the property was optioned in 1972, was exercising its option to acquire a majority interest. Having spent in excess of \$150,000 on exploration, Noranda acquired full title to the mineral claims subject to 5 per cent net carried interest to Discovery and a 20 per cent carried interest to Radiore Uranium Mines. In the event production status is attained, Discovery would be entitled to receive from early profits 20 per cent of the \$203,375 that Discovery and Radiore had spent but only after Noranda had recouped its capital investment.

Exploration of the property has been intermittent over many years and has consisted of detailed geophysics, trenching, and diamond drilling. Overall results have been encouraging but inconclusive.

**DISCOVERY MINES LIMITED**

and its subsidiaries

*Consolidated Balance Sheet***ASSETS**

	1975 \$	1974 \$ (restated)
<b>Current assets</b>		
Cash .....	3,579	113,405
Accounts receivable and prepaid expenses .....	16,036	12,044
	<u>19,615</u>	<u>125,449</u>
<b>Long-term investments (note 3) .....</b>	<u>1,472,237</u>	<u>3,506,668</u>
 <b>Mining properties (note 4)</b>		
Mining claims and options .....	342,616	413,814
Land, buildings and equipment .....	12,079	12,445
Deferred exploration and development expenditure .....	1,114,973	960,714
	<u>1,469,668</u>	<u>1,386,973</u>
	 <u><u>2,961,520</u></u>	 <u><u>5,019,090</u></u>



t as at December 31, 1975

## LIABILITIES

	1975 \$	1974 \$ (restated)
<b>Current liabilities</b>		
Bank indebtedness (note 5) .....	250,000	611,000
Accounts payable and accrued liabilities .....	91,026	108,964
	<u>341,026</u>	<u>719,964</u>
<b>Minority interest</b> .....	33,276	32,494
	<u>374,302</u>	<u>752,458</u>

## SHAREHOLDERS' EQUITY

<b>Capital stock</b>		
Authorized —		
4,000,000 shares of \$1 par value each		
Issued and fully paid (note 6) —		
3,188,773 shares (1974 — 2,748,773) .....	3,188,773	2,748,773
<b>Contributed surplus</b> (note 6) .....	506,774	194,224
<b>Retained earnings (deficit)</b> .....	(1,108,329)	1,323,635
	<u>2,587,218</u>	<u>4,266,632</u>
	<u>2,961,520</u>	<u>5,019,090</u>

Signed on behalf of the Board,

J. C. BYRNE, Director.

H. E. JOUDRIE, Director.

**DISCOVERY MINES LIMITED**

and its subsidiaries

# Consolidated Statement of Earnings and Retained Earnings

For the Year Ended December 31, 1975

	1975 \$	1974 \$ (restated)
<b>Income</b>		
Investment income .....	40,034	18,350
<b>Expenses</b>		
Property maintenance .....	16,300	17,270
Head office expenses .....	85,417	85,995
Exploration expenditures .....	52,830	90,423
	154,547	193,688
<b>Loss before share of income (loss) determined by the equity method and extraordinary items .....</b>	<b>114,513</b>	<b>175,338</b>
<b>Share of income (loss) determined by the equity method .....</b>	<b>29,987</b>	<b>(427,513)</b>
	84,526	602,851
<b>Extraordinary items</b>		
Write down of investment in Avoca Mines Canada Limited (note 2) .....	2,119,965	—
Mining claims (La Salle property) and related deferred expenditures written off .....	217,563	—
Loss (gain) on sale of fixed assets .....	9,910	(123,998)
	2,347,438	(123,998)
<b>Loss for the year .....</b>	<b>2,431,964</b>	<b>478,853</b>
<b>Retained earnings — beginning of year .....</b>	<b>1,323,635</b>	<b>1,802,488</b>
<b>Retained earnings (deficit) — end of year .....</b>	<b>(1,108,329)</b>	<b>1,323,635</b>
<b>Loss per share before extraordinary items .....</b>	<b>\$0.03</b>	<b>\$0.22</b>
<b>Loss per share .....</b>	<b>\$0.79</b>	<b>\$0.17</b>



# Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1975

	1975 \$	1974 \$ (restated)
<b>Source of working capital</b>		
Issue of treasury stock .....	752,550	—
Issue of subsidiary's stock .....	—	5,000
Sale of fixed assets .....	—	190,644
Sale of investments .....	6,821	22,518
Decrease in mine stores .....	—	40,964
	<u>759,371</u>	<u>259,126</u>
<b>Use of working capital</b>		
Current operations (note 9) .....	66,699	31,555
Advances to Avoca Mines Canada Limited .....	65,415	60,921
Development expenditures — deferred .....	353,453	765,745
Long-term investments .....	700	—
	<u>486,267</u>	<u>858,221</u>
<b>Increase (decrease) in working capital</b> .....	273,104	(599,095)
<b>Working capital (deficiency) — beginning of year</b> .....	(594,515)	4,580
<b>Working capital deficiency — end of year</b> .....	<u>321,411</u>	<u>594,515</u>

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Discovery Mines Limited and subsidiaries as at December 31, 1975 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,  
March 30, 1976.

COOPERS & LYBRAND,  
Chartered Accountants.

# DISCOVERY MINES LIMITED

and its subsidiaries

## Notes to Consolidated Financial Statements

For the Year Ended December 31, 1975

### 1. ACCOUNTING POLICIES

#### (a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, Camlaren Mines Limited and Botha Lake Mining Corporation Limited. The investment in the shares and debentures of the subsidiary Avoca Mines Canada Limited (54% owned) has been written down to a nominal value and the accounts have not been consolidated (note 2). Investments in effectively controlled companies are accounted for by the equity method.

The 1974 figures have been restated on a comparable basis to include Botha Lake Mining Corporation Limited and to account for the investment in Avoca Mines Canada Limited on the equity method.

#### (b) Long-term investments

The investment in shares of effectively controlled companies is carried at cost adjusted by the company's share of their earnings or losses since effective control was acquired. Other long term investments are written down when there is evidence that their inherent worth has declined below their carried value.

#### (c) Deferred exploration and development expenditures

These expenditures are deferred until such time as they are written off against production from the property to which they apply or until the claims are sold or otherwise disposed of. Expenditures made in the general search for minerals are normally charged to expense in the year incurred.

### 2. AVOCA MINES CANADA LIMITED

The investment in shares and debentures of Avoca Mines Canada Limited has been written down to a nominal value of \$1.

In 1975 Avoca Canada concluded that while its Irish subsidiary has considerable long-term potential, the current uncertainties as to (a) future financial support, (b) potential material reduction in the company's present percentage of ownership of the subsidiary and (c) conditions for copper producers, make it unrealistic to continue carrying the investment in shares at their equity value; accordingly such investment was written down to a nominal value of \$1.

In addition, Avoca Canada's debentures which were due December 31, 1975 remain unpaid and are in default although discussions to extend the maturity date are being held with certain major debentureholders. At December 31, 1975 Avoca Canada had no assets of determinable value other than advances to its Irish subsidiary.

### 3. OTHER LONG-TERM INVESTMENTS

#### (a) This item comprises:

	1975 \$	1974 \$
Investment in companies accounted for by the equity method —		
Shares (notes 1 and 3(b))	1,238,071	2,926,132
Debentures (note 3(c))	1	412,486
	<u>1,238,072</u>	<u>3,338,618</u>
Other investments at or below cost —		
Shares (note 3(d))	96,524	95,824
Advances to Avoca Mines Canada Limited and its subsidiary	137,641	72,226
	<u>1,472,237</u>	<u>3,506,668</u>



- (b) The quoted value of the shares of these companies accounted for by the equity method is \$1,398,000 (1974 — \$1,463,000).
- (c) \$440,000 Tundra Gold Mines Limited income debentures which matured on April 1, 1975 were exchanged for common shares of Tundra on the basis of 1 share for each \$1 of debenture. \$495,000 Avoca Mines Canada Limited 7% subordinated debentures due December 31, 1975 are in default and have been written down to nominal value.
- (d) Other investments include listed shares carried at a cost of \$25,414 with a quoted market value of \$7,100 (1974 — \$25,414 and \$5,900 respectively).
- (e) The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.
- (f) Gains of \$5,621 (1974 — \$18,350) on realization of investments are included in income.

#### 4. MINING PROPERTIES

	1975 \$	1974 \$
(a) Mining claims were acquired for cash and shares of capital stock as valued by the directors of the applicable company — at cost, less amounts written off:		
32 claims Whitehorse Yukon Territory .....	69,312	69,312
27 claims Discovery N.W.T. ....	1	71,200
21 claims Gordon Lake Area N.W.T. ....	273,300	273,300
Sundry .....	3	2
	<u>342,616</u>	<u>413,814</u>
(b) Land, buildings and equipment:		
Discovery N.W. T. ....	10,615	10,615
Head office equipment .....	1,464	1,830
	<u>12,079</u>	<u>12,445</u>
(c) Deferred exploration and development expenditure		

	Balance December 31, 1974 \$	Expenditure during year \$	Written off \$	Balance December 31, 1975 \$
La Salle, N.W.T. ....	146,364	—	146,364	—
Gordon Lake Area, N.W.T. ...	—	4,902	4,902	—
West Zone, Mattagami Area, Quebec .	48,928	(1,000)	47,928	—
Camlaren project .....	<u>765,422</u>	<u>349,551</u>	—	<u>1,114,973</u>
	<u>960,714</u>	<u>353,453</u>	<u>199,194</u>	<u>1,114,973</u>

#### 5. BANK INDEBTEDNESS

Bank indebtedness is partially secured by a general assignment of book debts.

#### 6. CAPITAL STOCK

During the year the company issued 440,000 shares of \$1 par value each for cash of \$752,550, of which \$312,550 was applied as an increase in contributed surplus.

# DISCOVERY MINES LIMITED

and its subsidiaries

## 7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Directors and senior officers, as defined in the Business Corporations Act, received direct remuneration in the year ended December 31, 1975 of \$17,200 (1974 — \$29,500).

## 8. CONTINGENT LIABILITY

The company has guaranteed that it will be responsible for any currency exchange differences, based on 1973 rates, that may arise from the payment in commercial French francs of a liability of Avoca Mines Limited. This liability amounts to 408,000 pounds sterling and is payable in commercial French francs over the next four years.

## 9. USE OF FUNDS FROM CURRENT OPERATIONS

	1975 \$	1974 \$
Net loss for the year before extraordinary items . . . . .	84,526	602,851
Items not affecting working capital —		
Exploration and development expenditures written off . . . .	(52,830)	(90,423)
Profit on sale of investments . . . . .	5,621	(51,702)
Share of income (loss) determined by the equity method . .	29,987	(427,513)
Other . . . . .	(605)	(1,658)
	<u>66,699</u>	<u>31,555</u>





